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Pete Wilson, Governor
STATE OF CALIFORNIA

MAY REVISION '95-96

GOVERNOR'S BUDGET

Overview

With the Legislature about to complete its final work on California's budget for Fiscal Year 1995-96, the May Revision to Governor Wilson's January budget provides updated economic and revenue forecasts, as well as the latest caseload, enrollment, and population information for programs in the health and welfare, education, and public safety areas. It also contains the latest information on state expenditures for the current and coming fiscal year.

Key Features

Key features of the May Revision include:

- A balanced budget, with General Fund expenditures held $900 million below General Fund revenues.
- The Governor's proposal to reduce all personal and corporate income taxes by 15 percent over three years.
- An increased investment in K-12 education, including full funding for a cost-of-living adjustment. Spending per pupil will rise by $87 to $4,334. This adjustment will provide an additional $2,600 per classroom.
- A full cost-of-living adjustment for California Community Colleges of three percent, which allows an increase of $202 per full-time student when combined with other fund sources.
- Maintains the four-year contract with higher education contained in the Governor's January Budget.

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- A stabilization account to equalize funding for the State and Local Government Partnership Program.
- A reduction of $35 million in state operations costs to assist in funding the aforementioned stabilization account.
- Additional reductions in health and welfare programs, caused by the federal government's failure to fully fund California's costs of illegal immigration.

What's Happened Since January

The following developments have occurred since the Governor submitted his budget to the Legislature, and are reflected in the May Revision. A more detailed discussion of these issues is contained inside this document..

In the Economy, developments in California and the nation have unfolded very close to the economic forecasts contained in the Governor's January Budget. As anticipated, the national economy has slowed in its growth, but this slowdown has not thwarted California's economic recovery, which continues and is evident in a broad range of the state's industries. Similar to other economic forecasts, the May Revision projects that California's economy will continue to out-perform the nation's economy in both employment and personal income growth through 1995 and in 1996.

In Revenues, the state will see General Fund revenues for the current year $210 million below forecast, due in part to weakness in sales tax collections. In the 1995-96 fiscal year, General Fund revenues are projected to be $147 million above the January forecast, due principally to continued improvement in California's economy.

In State Cash Flow Issues, California's cash position has improved substantially, which will reduce California's cash management borrowing to $2 billion in the budget year—the lowest level of external borrowing in six years. No external borrowing is required at the end of the 1995-96 fiscal year to balance the budget. In addition, cash projections for the budget year show the state with a year-end cash balance of $1.8 billion, meaning that the budget "trigger" will not be pulled.

In Caseload Programs, all major entitlement programs—Medi-Cal, AFDC, and SSI/SSP—have grown at slower rates than forecast in the January Budget. Similarly, growth in inmate population

has slowed for both the current and budget years from the January projections.

In Federal Issues, the failure of the federal government to fully recognize California's costs for illegal immigrants and refugees have reduced the state's expected level of reimbursement from $835 million to $518 million for the budget year. In addition, decisions by the U.S. Department of Health and Human Services to deny local Medi-Cal claims have reduced state reimbursements by $360 million over the current and budget years.

In Expenditures, as a result of lower federal reimbursements, additional expenditure reductions are required in health and welfare programs. These include further reductions in SSI/SSP and AFDC grants, and a delay in the provision of preventive health care services to lower-income California children. In addition, reductions in state personnel are proposed to equalize funding for the State and Local Government Partnership Program.

The May Revision maintains the priorities that Governor Wilson put before the Legislature in his January budget:

- A financial plan that keeps California living within its means.
- A continuation of initiatives designed to enhance California's economic competitiveness and improve the climate for job creation.
- An investment of the state's resources in priority programs for the long-term growth and benefit of all Californians.

The Administration looks forward to working with the Legislature in the coming weeks to enact a timely budget that maintains these priorities.

The US economy turned in a strong performance in 1994, with real gross domestic product (GDP) up 4.1 percent on average, capped by a 5.1-percent growth spurt in the fourth quarter. But the early months of 1995 have brought unmistakable signs of a slowing in economic growth. Advance estimates of first quarter GDP indicate that the economy grew at a 2.8-percent pace, and much of the gain reflected the largest buildup in inventories in nearly 11 years. Final sales—excluding the effects of inventory movements—rose at a tepid 1.7-percent pace, down sharply from the fourth quarter's 5.7-percent rate.

The buildup of inventories is flashing a clear warning signal. In 1983-84—the last major stock-building surge—businesses were accumulating goods in order to meet surging demand. This time, the pile-up is clearly unplanned and unintended, reflecting disappointing consumer demand for cars, furniture and clothing. New car sales have been particularly discouraging, declining in three of the first four months of the year, and automakers have been slashing their sales forecasts—and production schedules—in response to weakening demand.

Other signs of softness can be seen in the trend of new and existing home sales, housing starts and factory orders. Industrial production, retail sales, new factory orders and leading economic indicators all fell during March—the leading index for the second month in a row. Single-family housing starts declined in each of the first three months of 1995, and while home sales rose slightly in March, the gain followed sharp drops in January and February.

The January Budget forecast anticipated this slowing in US economic growth, and indeed the overall US outlook is little changed from the January view. Real GDP is expected to increase 2.9 percent this year and 2.3 percent in 1996 on an annual average basis. This compares to the Budget forecast of 2.5 percent growth this year and 2.2 percent next year. The larger 1995 gain is based entirely on the higher level of activity at the end of 1994.

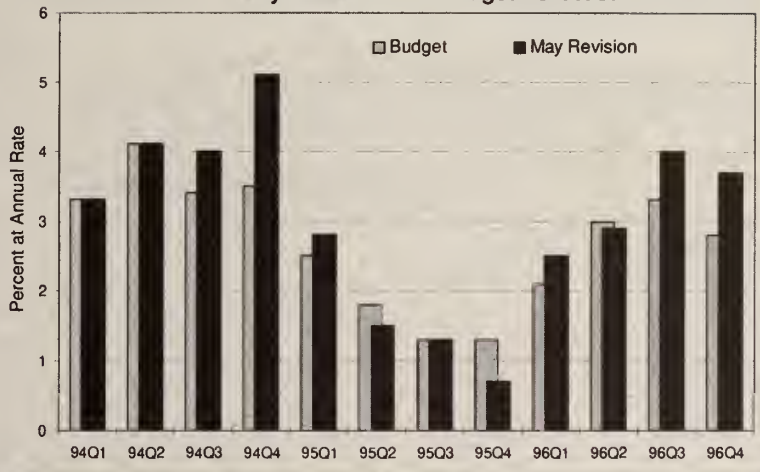
These annual averages mask the expected pattern of slow growth in 1995 and a pickup in 1996. Like the January Budget, the current outlook contemplates growth weakening to

near 1 percent in the second half of this year, as business cuts production to pare the excessive inventory position. Also like the Budget forecast, the quarterly pattern of growth is considerably better in 1996, with the pace picking up to more than 3 percent by the second half.

There are a number of positive elements in the outlook which will almost certainly keep the current slowdown from turning into a full-fledged downturn. For one thing, business fixed investment remains strong, especially for high-tech equipment outlays. Real producers' durable equipment spending surged at a 21-percent annual rate in the first quarter, following gains of 18 percent and more than 19 percent in the last two quarters of 1994. Spending on technology helps reduce costs and boost productivity—key elements in maintaining profitability as final demand slows. These strong gains in high-tech equipment spending are particularly important for California's electronics industry.

▼ FIGURE ECON-A

Quarterly GDP Growth
May Revision and Budget Forecast



Exports should also help boost the economy, especially in the second half of the year. The weaker dollar, coupled with spreading recovery in Europe, will improve US sales prospects across the Atlantic. Although the strong yen will slow Japan's upturn, this will in part reflect the substitution of imports for Japanese production. While the trade balance with Mexico is already worsening, gains in Europe and Asia will offset weakness in Latin America.

Although consumers are more cautious, the fundamentals of income and employment remain sound. Income gains outpaced household spending in the first quarter, and lower interest rates will eventually lead to increased purchases of big-ticket goods and housing.

The interest rate outlook has improved dramatically since the beginning of the year. Interest rates on longer term securities, including mortgages, are down more than a full percentage point since mid-December. The weaker economy and continued good news on inflation should all but rule out a further Federal Reserve hike in short-term rates. This forecast expects both short- and long-term interest rates to decline later this year and in early 1996.

▼ TABLE ECON-1

SELECTED NATIONAL ECONOMIC INDICATORS
Comparison of May Revision and Budget Forecast
(Percent change from previous year, except as noted)

	1994	1995	1996
Real Gross Domestic Product			
May Revision	4.1	2.9	2.3
Budget	3.9	2.5	2.2
US personal income			
May Revision	6.1	5.6	4.0
Budget	5.9	5.8	4.7
Corporate profits			
May Revision	13.4	10.8	5.1
Budget	12.9	5.5	4.5
Wage and salary employment			
May Revision	2.6	2.5	1.8
Budget	2.6	2.7	2.0
Unemployment rate (% of labor force)			
May Revision	6.1	5.8	6.0
Budget	6.1	6.0	6.3
Consumer Price Index			
May Revision	2.6	3.1	3.4
Budget	2.7	3.5	3.6

On the inflation front, most nonfood commodity prices have eased off early-year peaks due to slower economic growth, although there is some expectation of climbing oil prices. Compensation costs, including wages and benefits, rose at a record slow pace in the first quarter of 1995, reflecting among other factors, a dramatic slowing in medical premiums. California's floods are placing upward pressure on fresh fruit and vegetable prices, but bumper Midwest grain crops in 1994 point to lower meat and poultry prices this year. The conclusion is that consumer price inflation will likely hover in the 3 percent zone in 1995 and 1996, very much in line with experience of the last three years.

California

The key question in the California outlook is the extent to which the US slowdown will affect the state's economic recovery. Since the emerging US slowdown was anticipated in the January Budget forecast, there is little reason to alter the basic view of California's prospects over the next 18 months.

Job growth is still expected to be near 200,000 this year and about 300,000 in 1996. Personal income is expected to increase by 6.7 percent in 1995 and by approximately 6 percent next year. With inflation in California below 2 percent this year and around 3 percent in 1996, these income gains point to solid real growth in the state's economy.

Clearly, California's economy would perform even better were it not for the softening in US activity. But there are several good reasons to expect the state to escape the major impact of the slower national economy:

- California's late entry into the economic upturn implies considerable pent-up demand for motor vehicles and other consumer durable goods, as well as housing.
- Lower interest rates will provide

▼ TABLE ECON-2

SELECTED CALIFORNIA ECONOMIC INDICATORS
Comparison of May Revision and Budget Forecast

	1994	1995	1996
Nonfarm wage and salary employment			
May Revision	12137	12344	12647
Budget	12228	12445	12755
Percent Change			
May Revision	0.8	1.7	2.5
Budget	1.3	1.8	2.5
Personal income ($ billions)*			
May Revision	707.1	754.4	798.0
Budget	711.8	758.8	804.1
Percent Change *			
May Revision	3.5	6.7	5.8
Budget	4.2	6.6	6
Housing Permits (Units 000)			
May Revision	96	108	144
Budget	97	109	153
Consumer Price Index			
Percent Change			
May Revision	1.4	1.8	2.9
Budget	1.5	2.9	3.2

* Personal income growth is distorted by the Northridge earthquake and by income shifts following November Congressional elections. Without these, income would have increased 4.7 percent in 1994, and forecast growth in 1995 would be 5.2 percent.

an extra boost to housing and big-ticket consumer purchases later this year and in 1996.

- ▲ As noted in the US outlook, the strength of business equipment purchases is a plus for California. In addition, home computers comprise the one buoyant segment of US consumer durable spending, and California is the leader in the manufacture of computers for the home market (as well as the chips inside them).
- ▲ The effects of defense spending cuts and restructuring in such industries as banking and the utilities are gradually diminishing. Employment in the latter two industries should stabilize by 1996.
- ▲ The prospect of rising US exports, now strengthened even more by the lower dollar exchange rate, is an important plus for California's trade-oriented economy.

As seen in Table Econ-3 (page 9), the May Revision forecast is consistent with other economic forecasts for California.

Export Prospects.

On the latter score, there is legitimate concern that Mexico's problems will dampen the California outlook. Prior to the peso crisis, California might have expected to see exports to Mexico rise by about $1 billion this year. Now, a drop of about $2 billion seems likely—a $3 billion swing. But although Mexico is an important element in the state's export picture, Japan and Europe are far larger markets ($33 billion) for the state's goods and services.

Already, the strong yen has prompted a record surge in tourism from Japan. These visitors are not just sightseeing, but are also buying a variety of consumer goods at less than half the price they could at home. In addition to tourism, traditional exports are also on the rise. Even though Japan's recovery is likely to slow as a result of the rising yen, American—including California—exports will increase.

The dollar's depreciation is considerably less against European currencies, but there will still be an extra boost for exports. Thus, it is likely that most if not all of the weakness in exports to Mexico will be offset by better prospects in Europe and Asia.

While the uncertainties surrounding the U.S.-Japanese trade negotiations will take some time to play out, the proposed

sanctions on Japanese luxury vehicles are not expected to materially affect the level of California exports.

Winter Rains.

Damage from the heavy winter rains will probably exceed $2 billion when the final totals are in. Late spring rains and cool weather have reduced projected yields for alfalfa and canning tomatoes. But without minimizing the impact of the losses on individual farmers and homeowners, there are also gains which will partially offset the weather-related damage on a statewide basis. Range conditions for cattle feeding operations will be excellent throughout the summer, and there will certainly be more than sufficient water for irrigation. Abundant hydro-electric power will reduce the cost of electricity. Ski operators enjoyed the best season in over a decade, especially since poor conditions in the East attracted out-of-state visitors in large numbers.

▼ TABLE ECON-3

CALIFORNIA FORECAST COMPARISON
UCLA, LAO, BLUE CHIP, DOF
(Percent Changes)

	UCLA		LAO	Blue Chip*		Dept. of Finance	
	Dec-94	Mar-95	Feb-95	Dec-94	Apr-95	Budget	May
Personal Income							
1994	4.8	3.9	4.2	3.8	na	4.2	3.5
1995	9.3	6.9	6.5	5.2	6.3	6.6	6.7
1996	4.8	6.0	5.7	na	5.7	6.0	5.8
Non-Farm Employment							
1994	1.8	1.1	na	0.3	na	1.3	0.8
1995	3.6	2.1	1.9	1.4	1.9	1.8	1.7
1996	1.7	1.8	2.3	na	2.0	2.5	2.5
Housing Units (000)							
1994	99	96	96	103	96	97	96
1995	135	133	125	130	119	109	108
1996	144	150	140	na	139	153	144
US Gross Domestic Product							
1994	3.9	4.0	4.0	3.9	4.1	3.9	4.1
1995	3.2	2.9	3.0	2.9	3.2	2.5	2.9
1996	1.7	2.2	2.3	na	2.2	2.2	2.3

* *Western Blue Chip* © Arizona Board of Regents; US GDP, *Blue Chip Economic Indicators*, © Robert T. Eggert

na = not available

The weather also affected homebuilding, which averaged scarcely 75,000 units at an annual rate in the first quarter. Not only did the rain halt construction, but it also discouraged prospective buyers. Better weather, coupled with lower interest rates, will improve the outlook in the months ahead. Homebuilding is expected to increase gradually to nearly 110,000 units this year and more than 140,000 in 1996.

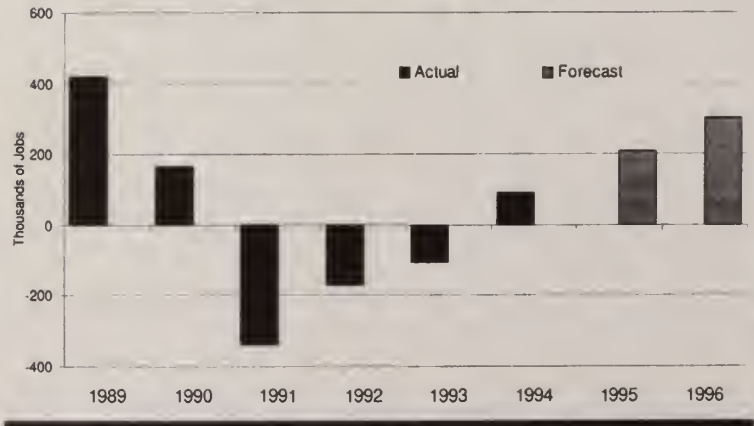
Nonresidential construction has been less affected by the weather, and the dollar volume of new permits in the first quarter of 1995 was the highest in three years. Industrial construction has been the major source of strength, reflecting gains in the manufacturing sector outside of aerospace. Office vacancy rates are falling, especially in northern California, and by 1996 there should be a modest rise in office construction. This year, nonresidential permit volume is expected to rise more than 5 percent, followed by an 11-percent increase in 1996.

Job Outlook

Employment trends for the past year indicate solid gains in construction, manufacturing (excluding defense-related aerospace) and diverse services, especially in business-related categories and the entertainment sector. Many of these are higher-paying jobs in engineering and management consulting, software and computer systems design, and the professions. Within entertainment, motion picture production is the state's highest paid industry, and among the fastest growing.

▼ FIGURE ECON-B

CALIFORNIA EMPLOYMENT CHANGE
(Nonfarm Jobs - Annual Averages)



In manufacturing, gains in construction-related industries and the electronics sector should continue. Construction will benefit from the expected pickup in

homebuilding, once the weather improves. Hotels and other travel-related services will benefit from the boom in foreign tourism.

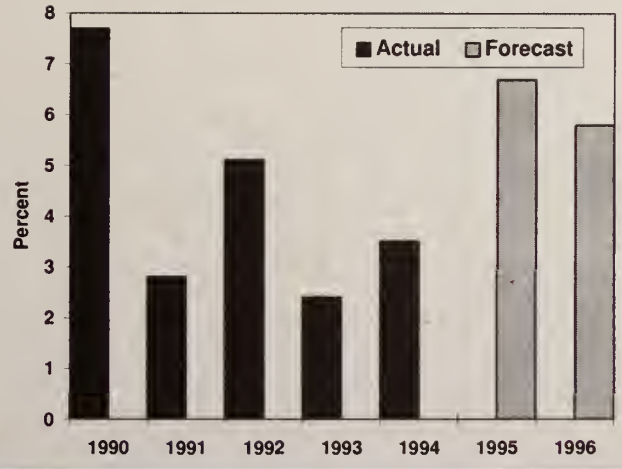
Although employment growth in the early months of 1995 has been affected by weather conditions, the state's economy is on course to create 200,000 new jobs this year, and with a strengthening US economy in 1996, California should add another 300,000 jobs next year. This projected growth will outpace the nation's rate of employment growth.

Personal Income.

In 1994, personal income growth was held down by special factors, including the Northridge earthquake and tax-related income shifting following the November Congressional elections. The earthquake subtracted over $6 billion from income last year, reflecting uninsured losses to residences and small businesses. It appears that about $2 billion was shifted from the fourth quarter, after the election dramatically increased the odds of a federal tax cut in 1995. In the previous two years, income had been accelerated to avoid federal tax increases, following the 1992 Presidential election. Without these distortions, income would have grown 4.7 percent last year, rather than the 3.5 percent estimate.

▼ FIGURE ECON-C

CALIFORNIA PERSONAL INCOME GROWTH
(Year-to-Year Percent Change)



The reversal of these special factors will add to growth in 1995. The forecast 6.7-percent increase would be a more moderate 5.2-percent rise without the earthquake-related and tax-motivated income shifting. The moderate improvement in underlying income growth reflects employment gains, partially offset

by slower growth in interest income and government transfer payments. In 1996, this underlying improvement is projected to continue, with income up almost 6 percent.

While income growth strengthens, inflation is expected to remain subdued. Last year, California consumer prices averaged only a 1.4-percent increase—the smallest rise in 33 years—and 1995 should again see inflation of less than 2 percent. These price measures are well below the 2.5 to 3-percent increases nationally, mainly reflecting the state's stable housing costs, flat to declining apparel prices, and lower medical cost inflation as compared to the national average.

In 1996, some firming in the housing market could boost consumer prices by as much as 3 percent, still less than the expected national increase of almost 3.5 percent.

Revenues

Revenues are expected to be $210.0 million below the Governor's Budget forecast for the current fiscal year and $146.0 million above for FY 95-96, for a combined reduction of $64.0 million. However, this includes a reduction of $26.0 million for realignment and $34.0 million for conformity issues. Adjusting for these proposals, the May Revision estimate over the two years is only $4.0 million below the Governor's Budget forecast.

The May Revision includes the Governor's tax reduction proposal which would reduce the personal income and bank and corporation tax rates in effect in 1995 by 15 percent, to be phased in over a three-year period beginning in 1996. When fully implemented, the proposal reduces the taxes of all taxpayers.

Personal Income Tax

Revision to the forecast is largely attributable to economic factors. Although the estimate incorporates 1993 sample data that were recently provided by the Franchise Tax Board, there was little change from what had been assumed in the Governor's Budget. As with the Budget forecast, the May Revision assumes a five-percent reduction in capital gains during 1994 based on the assumption that taxpayers, to the extent possible, delayed the realization of their gains in anticipation of federal tax reform. The estimated gain of 14 percent for 1995 could be impacted if a 1996 capital gains tax cut is anticipated by taxpayers. This estimate assumes that the Governor's tax reduction proposal will be adopted, and assumes adoption of AB 743, which conforms state law to federal law with regards to the treatment of income from the discharge of qualified real property business indebtedness and the application of passive activity loss rules to rental real estate activities. Budget year revenues have been reduced by $105.0 million and $34.0 million, respectively, for those two proposals.

Sales and Use Tax

Severe weather conditions throughout the State have negatively impacted first quarter sales activity. First quarter growth, based on preliminary cash, is 0.5 percent versus the Governor's Budget estimate of 5.6 percent. While the component detail will not be available for several months, motor vehicle and building sales, which comprise roughly 25 percent of total taxable sales, have been sluggish. Also, the forecast for

▼ TABLE REV-1

GENERAL FUND REVENUE FORECAST
Reconciliation with the Governor's Budget Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
FY 93-94				
Personal Income Tax	$17,590	$17,400	-$190	-1.1%
Sales & Use Tax	13,912	13,880	-32	-0.2%
Bank & Corporation Tax	4,734	4,758	24	0.5%
Insurance Tax	1,197	1,197	0	0.0%
Other Revenues & Transfers	2,662	2,756	94	3.5%
Total	**$40,095**	**$39,991**	**-$104**	**-0.3%**
FY 94-95				
Personal Income Tax	$18,485	$18,330	**-$155**	-0.8%
Sales & Use Tax	14,804	14,575	-299	-1.5%
Bank & Corporation Tax	5,525	5,670	145	2.6%
Insurance Tax	967	946	-21	-2.2%
Other Revenues & Transfers	2,572	2,622	50	1.9%
Total	**$42,353**	**$42,143**	**-$210**	**-0.5%**
FY 95-96				
Personal Income Tax	$19,490	$19,665	$175	0.9%
Sales & Use Tax	14,947	14,769	-178	-1.2%
Bank & Corporation Tax	4,800	4,950	150	3.1%
Insurance Tax	1,252	1,240	-12	-1.0%
Other Revenues & Transfers	2,049	2,060	11	0.5%
Total	**$42,538**	**$42,684**	**$146**	**0.3%**

the economy has been revised downward slightly for many of the components crucial to taxable sales activity, causing declines in the remaining current and budget year forecasts. As in the Governor's Budget, this estimate includes an adjustment in the budget year for local government realignment. The shift from the General Fund to the local Children's Special Services Account (CSSA) is estimated at $726 million. Adjusting for this shift, budget year sales tax revenue growth is estimated to be 6.3 percent.

Bank and Corporation Tax

Current year revenues have been stronger than forecast for the Governor's Budget and this is reflected in the May Revision. As with the Governor's Budget forecast, this estimate assumes that the Governor's tax reduction and Enterprise Zone reform proposals will be enacted. Budget year revenues have been reduced by $74.0 million and $10.0 million, respectively, for those two proposals. Adjusting for factors which distort revenue comparisons between the current and budget years results in an estimated base revenue growth of 15 percent in 1994-95 and six percent in 1995-96. The two largest factors of distortion are (1) the conclusion of unitary court cases, which added one-time revenue to the current year, and (2) the Manufacturers' Investment Credit (Chapter 881, Statutes of 1993), which will result in additional revenue loss in 1995-96 as the credit reaches full implementation and effectiveness.

Insurance Tax

This revenue is running slightly below the Governor's Budget forecast, with the premium weakness appearing in worker's compensation. The other area of weakness is the retaliatory tax. These downward trends were carried into the budget year. Consistent with the Governor's Budget forecast, one-time refunds of $163.0 million are expected to be paid in June of 1995.

Other Funds Revenue

As with the Governor's Budget forecast, this estimate assumes that the Governor's realignment proposal will be enacted. This will transfer $299.0 million in trial court funding to local government in the budget year. Federal monies are not included but are instead reflected as reductions on the expenditure side. Significant increases in revenues since the Governor's Budget forecast occurred in abandoned property and investment interest. Offsetting much of this gain was a decline in tidelands oil revenue.

Department of Alcohol and Drug Programs

1994-95 No change
1995-96 No change

In the current year, local assistance expenditures for substance abuse services will increase by $23 million in Federal Financial Participation (FFP) received through the Department of Health Services for the Drug Medi-Cal program (DMC). This increase is 92 percent over 1993-94 and reflects the implementation of the Federal Court Order in *Sobky v. Smoley.* The Department used existing local assistance General Fund to provide the match for the additional FFP, consistent with the provisions of Health and Safety Code Section 11987.3. Consequently, the current year growth in the DMC program has not resulted in any increase in General Fund costs.

In the budget year, the DMC program is projected to grow at a similar pace. The available General Fund in the Department's local assistance appropriation is insufficient to provide the required General Fund match. As a result, the Administration is proposing to terminate the Drug Medi-Cal program. Existing state law provides that the intent of the Legislature in establishing this program was to enable counties to bill Medi-Cal for certain substance abuse services without resulting in any increased cost to the General Fund. This requirement can no longer be met and the State can no longer afford to fund rapid growth in the program without diverting resources from other needed programs.

The Administration also proposes to transfer $8,753,000 from the general appropriation for substance abuse services to fund perinatal substance abuse services. This transfer is needed in order to maintain the existing level of funding for perinatal services at $25 million. The balance of the Department's local assistance funding, $53,505,000, will be available for discretionary county substance abuse services consistent with the use of these funds prior to the *Sobky* decision.

Department of Health Services—Medi-Cal

1994-95 -$5.6 million
1995-96 $270.2 million

Current Year

The May 1995 Medi-Cal estimate projects total expenditures of $16,621,041,000 in the current fiscal year. The General Fund amount included in this total is $6,031,551,000 for benefits and administrative costs in local assistance Item 4260-101-001, and $9,990,000 for capital debt payments to hospitals in Item 4260-102-001.

The 1994-95 Medi-Cal General Fund deficiency for Item 4260-101-001 was reflected as $132,177,000 in the Governor's Budget. Based on expenditure estimates contained in the 1995 May Revision, the current year deficiency for Item 4260-101-001 will decline slightly to $126,581,000.

The decrease in the General Fund deficiency is due in part to an overall reduction in caseload. The average monthly caseload for 1994-95 is estimated to be 5,477,000—down by 29,400 or 0.5 percent since the January Governor's Budget. This results in a decrease of $114.6 million due to slower fee-for-service base growth. Other significant changes affecting the deficiency amount include: $7.8 million for the cost of third-party liability settlements; savings of $43.9 million in dental expenditures; savings of $23.1 million due to illegal immigrants' costs being less than originally projected; an $8.0 million increase due to anticipated drug rebate savings not occurring as projected; savings of $2.8 million due to fewer than anticipated refugees being eligible for funding under the Federal Refugee Act; $2.0 million in savings due to lower caseload for illegal immigrants' prenatal care; and $6.5 million in savings resulting from fewer than projected Early and Periodic Screening, Diagnosis and Treatment (EPSDT) cases.

The 1994-95 General Fund appropriation was based on the assumption that Medi-Cal program costs would be offset by $200 million from county funds (Item 4260-601-103) made available through the Medi-Cal Administrative Claiming (MAC) program. MAC activities are primarily performed by counties to ensure that assistance is provided to Medi-Cal eligible individu-

als while securing Medi-Cal services. However, due to federal disallowances impacting this program and the need to redesign the program under a much narrower Targeted Case Management (TCM) approach, the offset to state costs has been reduced by $180 million.

An increase of $177 million is included for the SB 1255 program, which provides for voluntary contributions from counties which are matched with federal funds for redistribution to disproportionate share hospitals. The amount to be redistributed is currently being negotiated by the California Medical Assistance Commission, which will amend existing hospital contracts to reflect the final amounts.

Budget Year

Total Medi-Cal expenditures for 1995-96 are estimated to be $15,767,556,000. The General Fund amounts included in this total are $5,955,137,000 for traditional Medi-Cal local assistance expenditures in Item 4260-101-001, and $10,640,000 for capital debt in Item 4260-102-001.

The Budget Year Medi-Cal General Fund estimate for Item 4260-101-001 has changed from $5,684,916,000 to $5,955,137,000, an increase of $270,221,000. The capital debt payments Item 4260-102-001 has decreased by $2,095,000 because of delays in various hospital construction schedules that are outside the state's control.

The average monthly Medi-Cal caseload for 1995-96 is projected to be 5,715,300, which represents a reduction of 38,800 eligibles, or 0.67 percent lower than estimated in the Governor's Budget. However, even this level represents a 4.35-percent caseload growth over 1994-95. Other significant General Fund issues which cause a difference between the 1995-96 Governor's Budget and the May Revision estimates include the following: a net increase of $180 million to replace most of the reimbursements anticipated in the MAC/TCM program; a decrease of $22 million from eliminating a proposed increase for hospital contract rates; a reduction of $10.4 million as a result of population declines in State hospitals; a reduction and a recovery totaling $8.5 million for the East Valley Pavilion in Santa Clara County as a result of a federal audit; a projected long-term-care rate decrease of $7.4 million based on cost report data; a $27.8 million net decrease in

dental costs exclusive of adult dental; an increase of $11.5 million due to delayed approval of legislation to eliminate OBRA prenatal care; decreased savings of $6.7 million for elimination of Medi-Cal services for sponsored aliens during their first five years in this country; an increase of $4.4 million to reflect reduced savings resulting from the proposal to eliminate alcohol and drug dependence from the definition of SSI disability; an increase of $5.2 million to comply with OBRA 1989 requirements to provide EPSDT to all Medi-Cal eligibles under 21 years of age; an increase of $5.5 million due to reduced estate recoveries resulting from the *DeMille vs Belshe'* lawsuit; and a net increase of $11.9 million to maintain nursing hours at current levels.

The May Revision also reflects an increase of $181.0 million General Fund to replace all but $105 million in enhanced FFP for OBRA health care and county administration costs. Further, the revised budget includes an increase of $41.8 million General Fund as enhanced FFP for medical services provided to refugees during their first 36 months in this country has not yet been provided by the federal government.

The May Revision continues to reflect a total savings of $161 million resulting from the elimination of nine federally optional benefits, including the termination of the adult dental program. This savings amount is $5.3 million less than the amount contained in the Governor's Budget due to the decline in projected caseload.

Department of Health Services—Public Health

1994-95 $36.7 million
1995-96 -$30.9 million

Proposition 99-Litigation

Recent court decisions have denied Proposition 99 funding which was appropriated from the Cigarette and Tobacco Products Surtax Fund (CTPSF) Health Education and Research Accounts for various preventive and indigent health programs. The decision is on appeal. Pending a stay of the trial court decision, costs already incurred for the current year for critical caseload programs will require the General Fund augmentations described below.

Current Year

In the current year, estimates for Public Health programs reflect a net increase of $36,735,000 General Fund as follows:

Child Health and Disability Prevention (CHDP)

The revised estimate for total CHDP screens is 1,053,500, or 2.0 percent higher than the January estimate. The General Fund portion of this caseload has decreased by 2,200 screens, with lower average costs per screen, for a net caseload cost reduction of $1,048,000. However, this decrease will be offset by a $33,169,000 General Fund augmentation which is required to replace funds from the Health Education and Research Accounts of the CTPSF which were denied by court order, resulting in a net increase of $32,121,000. The caseload which is funded by revenues from the CTPSF will increase by 22,400 screens, resulting in an increase of $611,000 from the Unallocated Account.

Genetically Handicapped Persons Program (GHPP)

In the current year, total caseload has decreased by 1.0 percent to 1,928. Savings of $1,323,000 from reduced caseload and treatment costs will be offset by a General Fund augmentation of $4,000,000 to replace CTPSF-Research Account funding denied by court order for GHPP, resulting in a net increase of $2,677,000.

California Children's Services (CCS) Program

For the current year, savings are $3,093,000 due to reduced caseload and treatment costs and a slightly lower estimate of 135,520 cases will be offset by a General Fund augmentation of $5,000,000 to replace CTPSF-Research Account funding denied by court order for CCS, resulting in a net increase of $1,937,000.

Budget Year

In the budget year, estimates for Public Health programs reflect a net reduction of $30,856,000 General Fund as follows:

California Reaching for Early Access for Children's Health (CalREACH)

Implementation of the CalREACH Initiative for expanded outpatient medical services for uninsured children will be delayed until January 1, 1996, reducing budget year costs by $28.1 million. The delay results both from the need to make General Fund available to pay for unfunded federally mandated services for illegal immigrants and to permit better operational planning prior to implementation.

Child Health and Disability Prevention (CHDP)

The revised estimate for total screens is 1,143,100, or 2.6 percent higher than the January estimate. The General Fund portion of this caseload has increased by 8,000 screens, with lower average costs per screen, for a net reduction of $215,000. This decrease will be offset by $900,000 to reflect lower estimated savings from the federal Vaccines for Children Program, and by funds reallocated within the Public Health program for the increased reimbursement rate for CHDP providers as part of the Governor's Immunization Initiative. These changes result in a net General Fund increase of $685,000. The estimate is based on the assumption that the State will succeed in the Proposition 99 litigation; thus, no funds are proposed to replace the CTPSF-Health Education Account funds at issue in this litigation. The caseload which is funded by revenues from the CTPSF will increase by 20,800 screens at a cost of $1,277,000. The impact of a provider rate increase for immunizations will require an additional $1,759,000 for a total CTPSF augmentation of $3,036,000 from the CTPSF Unallocated Account.

Genetically Handicapped Persons Program (GHPP)

Total caseload is estimated to drop slightly to 1,943 cases and lower caseload and treatment costs will allow a General Fund reduction of $2,094,000. Again, the budget assumes that CTPSF Research Account funds will be available to the program in 1995-96.

California Children's Services (CCS) Program

The CCS caseload is estimated to reach 143,190 cases, a 1.0 percent decrease over the fall estimate, and lower caseload and treatment costs allow a reduction of $1,352,000. The budget assumes the availability of CTPSF-Research Account funds as indicated above.

Teen Pregnancy Prevention Initiative

The May Revision refines the allocation of $12 million included in the Governor's Budget for the Teen Pregnancy Prevention Initiative. Teen pregnancy prevention remains one of the Administration's highest prevention priorities. This initiative focuses on prevention strategies, responsibility of the fathers, and coordinating prevention strategies with welfare reform efforts. Consistent with the recommendation of the public advisory committee, the May Revision proposes redirection of $580,000 for administrative costs to implement the program.

Department of Developmental Services

1994-95 No change
1995-96 -$15.3 million

In the budget year, regional center costs are higher by $11.4 million due to a projected increase in the operations, transportation and purchase of services areas. While costs for this program are projected to increase, General Fund expenditures are decreasing by $14.4 million due to increases in other funding sources for the regional centers. Federal funds have increased by $1.4 million, and Medicaid Waiver funds have increased by $24.4 million.

Additionally, a technical adjustment reflects the receipt of $111 million in Title XX funds as a reimbursement from the Department of Social Services rather than as federal funds.

In the developmental centers, the Department projects a decrease of $946,000 in its own budget and $7.3 million in Medi-Cal General Fund due to a systemwide population decline of 121 clients. Proposition 98 funding also reflects a reduction of $249,000 due to the population decline.

Population declines which have already occurred and projected declines in the budget year and beyond result in the need to reduce state-operated facilities. The Stockton Developmental Center is proposed to be closed by the end of 1995-96. Of the 324 clients, 220 will transfer to Napa State Hospital, 30 will transfer to Camarillo Developmental Center, 35 will transfer to Porterville Developmental Center and 39 will be placed into community care facilities. Adjustments have been made to transfer the funding and staffing from the Stockton Developmental Center to the facilities receiving the clients. The closure of the Stockton Developmental Center will result in a net General Fund cost of $312,000.

Department of Mental Health

1994-95 $1.8 million
1995-96 $7.6 million

In the current year, dramatic growth has occurred in judicial and penal code commitments to the state hospitals. The Governor's Budget identified growth of 439 beds (a 29-percent increase.) The May Revision proposes funding an additional 75 beds at an additional cost of $1.8 million, current year, and $3.6 million, budget year.

In 1995-96, the Department of Developmental Services (DDS) proposes to close the Stockton Developmental Center and transfer 220 clients to Napa State Hospital. DDS will contract with DMH for services at Napa at a cost of $18.4 million. Since the budget for the Stockton Developmental Center will be reduced when the clients are transferred to Napa, there is no net cost to the General Fund for this proposal.

In addition, DMH proposes an increase of $3,363,000 for mental health managed care. This augmentation reflects the net impact of a reduction in eligibles (-$1,082,000), an increase for the San Mateo field test ($1,640,000), and an increase of $2,805,000 to facilitate the transition to managed care.

Finally, the DMH proposes to reappropriate $600,000 from the Budget Act of 1993 in order to pay claims to counties pursuant to Welfare and Institutions Code Section 4117, which

requires the state to reimburse counties for the costs incurred when serving state hospital patients who are awaiting local court appearances.

Department of Rehabilitation

1994-95 $1.9 million
1995-96 $1.6 million

In the current year, expenditures are estimated to increase by $3.9 million General Fund in the Vocational Rehabilitation Program for unbudgeted caseload increases and cost increases due to serving more clients with more severe disabilities than those served in the past. These costs are offset by a General Fund savings of $2 million in the Habilitation Program due to caseload reductions.

In the budget year, expenditures are estimated to increase by a net of $1.6 million reflecting three changes. First, the caseload for the Habilitation Program is projected to decrease by 73 clients. While the total number of clients is declining, a General Fund cost of $1.1 million is estimated because the program is now providing services to more severely disabled clients due to more restrictive federal requirements, resulting in a higher cost per client. The Wilson administration will work with Congress to provide states with greater flexibility in this program. Second, the number of clients in the Vocational Rehabilitation Work Activity/Supported Employment Program is estimated to decline by 459, providing a General Fund savings of $759,000. Third, an augmentation of $1.3 million is proposed to match available federal funds in the base Vocational Rehabilitation Program.

Department of Social Services

1994-95 -$106.9 million
1995-96 -$311.9 million

Current Year

In the current year, expenditures for the Department of Social Services are estimated to decrease by $106.9 million General Fund as follows:

Aid to Families to Families with Dependent Children (AFDC)

In the AFDC program, 1994-95 expenditures are expected to decrease by $36.3 million. In the Governor's Budget, the 1994-95 AFDC caseload was projected to increase by 5.2 percent; now, the expected increase is 3.3 percent (-$59.8 million). Most of the reduction is occurring in the Family Group population. The decrease in caseload is partially offset by costs relating to the delay in implementing the 2.3-percent grant reduction which was enacted by Chapter 148, Statutes of 1994 ($17.2 million). The Governor's Budget had assumed implementation of the reduction beginning in March 1995. Current estimates assume implementation in September 1995. In addition, the May Revision includes the implementation of federal regulations which require that temporary disability income be treated as earned income, thereby qualifying it for existing income disregards ($3.3 million).

County Administration

In the county administration of welfare programs, General Fund expenditures are expected to decrease by $19.3 million, primarily due to counties' inability to match state and federal funds (-$18.7 million). There are additional savings from Los Angeles County's Automated Fingerprint Image Reporting and Match (AFIRM) system (-$1.1 million) and reductions to the Statewide Automated Welfare System (SAWS) (-$2.7 million). SAWS reductions are primarily attributable to the postponement of some system modifications due to delays in obtaining federal approvals (-$3.2 million), offset by the purchase of additional workstations ($1 million). Offsetting

increases to county administration include a delay in implementing the SB 35 Food Stamp/AFDC simplification program due to the time required to obtain a federal waiver ($2.9 million) and increases in various fraud activities ($1.1 million).

Children's Programs

Foster Care

Costs in the Foster Care Program for 1994-95 are estimated to increase by $20.6 million over the amount estimated in the Governor's Budget. This change is largely due to caseload costs increasing at a rate higher than anticipated in the Governor's Budget estimate. Whereas 1994-95 Foster Care caseload was projected to grow above 1993-94 levels by 3.2 percent in the Governor's Budget, it is now projected to grow by 3.7 percent ($14.8 million). This reflects the inclusion of costs for Emergency Assistance-Foster Care cases ($17.6 million), offset by General Fund savings that are the net result of caseload increases and an increase in the percentage of cases eligible for federal financial participation (-$2.7 million). Additionally, increased costs for group home rates ($2.5 million) reflect increases in group home caseload, increases in the statewide occupancy rate, and increased costs for bringing group home payments to 100 percent of the floor rate. The May estimate also reflects reduced savings from child support collections, which are used to offset Foster Care Program costs ($2.3 million). This is due to a revised allocation of child support collections between Foster Care and AFDC.

Adoptions Assistance Program

The estimate reflects a decrease in costs (-$2.8 million) compared to the Governor's Budget in the Adoptions Assistance Program (AAP). Changes are the result of lower caseload growth (-$.5 million) and an increase in the federally eligible caseload (-$2.3 million).

Whereas the 1994-95 AAP caseload was projected to grow above 1993-94 levels by 10.6 percent in the Governor's Budget, it is now projected to grow by 9.3 percent.

Adult Programs

Supplemental Security Income/State Supplemental Payment (SSI/SSP)

In the current year, Supplemental Security Income/State Supplemental Payment (SSI/SSP) Program expenditures are $41.9 million below the level reflected in the Governor's Budget. Savings attributed to caseload total $45.9 million. This reduction is the result of a decrease in caseload growth and a decrease in the average SSP grant for aged, blind, and disabled recipients.

Whereas the Governor's Budget projected caseload growth of 4.2 percent, caseload is now projected to increase by 2.5 percent. In addition, the average monthly SSP grant has decreased by $8.25 for aged, $22.04 for blind, and $3.60 for disabled recipients. However, these reductions are offset by the elimination of savings from implementing new federal requirements for those whose basis of disability is drug addiction or alcoholism ($3.2 million). These requirements, originally projected to be implemented on March 1, 1995, will now be effective July 1, 1995. In addition, savings produced by using sponsor income in the calculation of grants for sponsored aliens has also decreased ($0.8 million). The reduction in savings occurred because of slower SSI/SSP caseload growth and a decrease in the average monthly grant for sponsored aliens of $15.63.

In-Home Supportive Services (IHSS)

In-Home Supportive Services (IHSS) expenditures are $9.2 million below the level reflected in the Governor's Budget. This decrease is caused by slower caseload growth and an increase in the percentage of the IHSS caseload which is eligible for the Personal Care Services Program (PCSP). Whereas the Governor's Budget projected caseload growth of 6.4 percent, caseload is now projected to grow by 3.1 percent. In addition, the Governor's Budget estimated that 60 percent of IHSS recipients would be eligible for the PCSP. It is now estimated that 62 percent will be eligible.

Budget Year

In the budget year, expenditures for the Department of Social Services are estimated to decrease by $311.9 million General Fund as follows:

Aid to Families with Dependent Children (AFDC)

In the AFDC program, expenditures are expected to decrease $145.1 million. In the Governor's Budget, the 1995-96 AFDC caseload was projected to increase by 4.7 percent; now it is expected to increase by 2.9 percent. As with the current year, most of the reduction is occurring in the Family Group population. Caseload changes result in savings of $99.8 million. Additional savings result from the favorable ruling by the U.S. Supreme Court in the *Edwards v. Carlson* case (-$10.0 million).

The May Revision also reflects additional savings related to welfare reform proposals. The Governor's Budget proposed a 15-percent reduction for households with an able-bodied-adult which have been on aid more than six months to be effective in March of 1996. The May Revision proposes implementation of the 15-percent reduction for those on AFDC more than six months to be effective in September of 1995 (-101.7 million). These savings are partially offset by increased costs from delaying the implementation of the 2.3-percent grant reduction until September 1995. In addition, the Governor's Budget proposed exemptions to all grant reductions implemented since December 1992 for non-needy and permanently disabled caretaker relatives. The May Revision proposes to apply exemptions to grant reductions implemented after October 1992 (including the 4.5-percent reduction), to apply exemptions to those who are temporarily disabled, and to apply the exemptions retroactively to September 1994 ($36.1 million). Further, the May Revision includes the implementation of federal regulations which require that temporary disability income be treated as earned income, thereby qualifying it for existing income disregards ($3.0 million). Lastly, the Governor's Budget assumed federal funding for the costs associated with funding AFDC for all refugees during their first 36 months in the United States. Based on the lack of action at the federal level, the May Revision no longer assumes federal funding for these costs ($37.0 million).

County Administration

In the county administration of welfare programs, General Fund expenditures are expected to decrease (-$15.8 million). Reductions in basic costs for AFDC, Foster Care, and Food Stamps result in savings of $23.7 million. These reductions are due to caseload changes as well as counties' inability to match state and federal funds. There are additional savings from Los Angeles County's Automated Fingerprint Image Reporting and Match (AFIRM) system (-$1.2 million), the Supreme Court's favorable ruling in the *Edwards v. Carlson* case (-$1.5 million), and earlier implementation of the 15-percent grant reduction (-$3.2 million). Offsetting increases to county administration include the delay in implementing the SB 35 Food Stamp/ AFDC simplification program ($2.9 million) and increases in various fraud activities ($2.6 million). In addition, the May Revision no longer assumes federal funding for refugees during their first 36 months in the United States ($1.7 million).

Information Technology Projects

The May Revision also reflects a transfer of 109.3 personnel years associated with the Statewide Automated Welfare System (SAWS), the Statewide Automated Child Support System (SACSS) and the Child Welfare Services Case Management System (CWS/CMS) from the Department of Social Services to the Health and Welfare Data Center (HWDC), which will have management responsibility for the projects. In addition, the May Revision reflects all Social Services costs for the projects in local assistance as a result of the transfer.

Budget year costs for SAWS are expected to be lower than Governor's Budget estimates by $3.0 million, primarily due to lower expenditures in the current year resulting in additional reappropriated funds being available in the budget year.

The implementation schedule for SACSS now reflects a small county pilot beginning in the fall of 1995. The May Revision assumes enhanced federal funding for the project through October 1996. SACSS costs are expected to increase by $0.8 million as activities are shifted from the current year to the budget year as a result of the revised schedule. The May Revision also reflects an augmentation of $1.1 million for 17 positions in the Office of Child Support to meet SACSS workload needs associated with county training, and converting program and policy changes into SACSS system changes.

Further, the May Revision reflects an increase of $0.1 million for contract services to hire a consultant to develop the request for proposal and federal approval documents for a statewide fingerprint imaging system. Funding for the program is reflected in the Department of Social Services budget. However, management of the project will be the responsibility of the HWDC.

Child Support Enforcement

In the Child Support Enforcement Program, General Fund savings from collections are expected to be $17.1 million lower than anticipated in the Governor's Budget. This reduction is primarily due to the delay in SACSS implementation. As counties convert to an automated system, resources are diverted from collection activities. The Governor's Budget had assumed that the majority of conversion activities would occur in the current year. As these activities are shifted to the budget year, collections are expected to decrease by $10.8 million. In addition, the SACSS delay impacts the estimate for the Franchise Tax Board Child Support Collection Program, resulting in a $3.3 million reduction in collections. Further, collections related to the State Investment in Child Support Program are anticipated to be lower ($3.5 million) as a result of revisions in county plans and implementation schedules.

Child Care

In the Supplemental Child Care Program, expenditures are estimated to decrease due to lower than expected utilization of the program (-$3.6 million). Full implementation of the Non-GAIN Employment and Training (NET) Program in Los Angeles County increases the estimate for the budget year by $1.6 million. The May Revision reflects an increase of $2.7 million for Cal-Learn, primarily the result of implementation delays which shifted costs from the current year to the budget year. Lastly, expenditures for Trustline are expected to decrease by $1.0 million due to a reestimate of the number of Trustline certifications which would be needed under current law for the existing caseload.

Children's Programs

Foster Care

The 1995-96 Partnership proposal would shift program and funding responsibility for the Foster Care program to the counties. Accordingly, the May estimate for 1995-96 reflects no General Fund costs for Foster Care. The realigned expenditures in the Foster Care program, however, are projected to increase by $25.1 million over the amount estimated in the Governor's Budget.

Changes in the Foster Care Program are the result of caseload costs increasing at a rate higher than anticipated in the Governor's Budget. Whereas 1995-96 Foster Care caseload was projected to grow above 1994-95 levels by 3.1 percent in the Governor's Budget, it is now projected to grow by 3.4 percent. The resulting increased caseload costs ($19.4 million) reflect the inclusion of costs for Emergency Assistance-Foster Care cases ($21.1 million), offset by the General Fund savings that are the net result of caseload increases and an increase in the percentage of cases eligible for federal financial participation. Additionally, increased costs for group home rates ($2.8 million) reflect increases in group home caseload, increases in the statewide occupancy rate, and increased costs for bringing group home payments to 100 percent of the floor rate. The May estimate also reflects a reduced savings resulting from child support collections, which are used to offset Foster Care Program costs ($3.1 million). This is due to a revised allocation of child support collections between Foster Care and AFDC.

Adoptions Assistance Program

The 1995-96 Partnership proposal would shift program and funding responsibility for the Adoptions Assistance Program (AAP) to the counties. Accordingly, the May estimate for 1995-96 reflects no General Fund costs for Adoptions Assistance. The May estimate of realigned expenditures in the AAP, however, reflect a decrease in costs (-$3.4 million) compared to the Governor's Budget. Changes are the result of lower caseload growth (-$1.5 million) and an increase in the federally eligible caseload (-$2.0 million).

Whereas the 1995-96 AAP caseload was projected to grow above 1994-95 levels by 9.7 percent in the Governor's Budget, it is now projected to grow by 8.0 percent.

Child Welfare Services (CWS)

The 1995-96 Partnership proposal would shift program and funding responsibility for the Child Welfare Services Program to the counties. Accordingly, the May estimate for 1995-96 reflects no General Fund costs for Child Welfare Services. The realigned expenditures in the Child Welfare Services Program, however, are projected to decrease compared to the Governor's Budget (-$17.8 million).

Changes in the Child Welfare Services Program are primarily the result of increased savings from the Emergency Assistance Program (-$7.8 million) resulting from full implementation of the Emergency Response component. Additionally, the state prevailed in an appeal of a Federal IV-B audit disallowance in CWS, reducing General Fund expenditures (-$11.1 million). Also a change in federal regulations regarding matching funds for the Independent Living Program will allow the reduction of state matching funds without any loss of federal funds (-$1.0 million).

The anticipated General Fund cost reductions are offset by anticipated increased costs for the Teen Pregnancy disincentive ($1.4 million). Whereas the Governor's Budget reflects costs for child protective services reviews, the May estimate includes additional funding to train those having children in parenting skills. Additionally, the estimate reflects the transfer of state operations funding for the Child Welfare Services Case Management System (CWS/CMS) to the local assistance item for CWS ($1.4 million). These funds will support the costs of the Health and Welfare Data Center, which now has management responsibility for the CWS/CMS project.

Adult Programs

Supplemental Security Income/State Supplemental Payment (SSI/SSP)

In the budget year, SSI/SSP expenditures are $217.4 million below the level reflected in the Governor's Budget. Savings attributed to caseload total $80.8 million. This reduction is the result of a decrease in caseload growth and a decrease in the

average SSP grant for aged, blind, and disabled recipients. Whereas the Governor's Budget projected caseload growth of 5.1 percent, caseload is now projected to increase by 3.7 percent. In addition, the average monthly SSP grant has decreased by $8.25 for aged, $22.04 for the blind, and $3.60 for disabled recipients. These reductions are offset by a decrease in estimated savings from the proposal to eliminate drug and alcohol addiction (DA/A) as a basis for disability ($3.0 million). The decrease in savings is the result of the Department of Social Services' (DSS) reestimation of this proposal's impact after current federal requirements for DA/A recipients take effect. Finally, savings produced by using sponsor income in the calculation of grants for sponsored aliens have also decreased ($0.7 million). The reduction in savings occurred because of slower SSI/SSP caseload growth and a decrease in the average monthly grant for sponsored aliens of $15.63.

The May Revision also reflects additional savings related to grant reductions. The May Revision proposes increasing the grant reduction applied to individuals from 8.0 percent to 11.5 percent, resulting in additional savings of $134.8 million. The reduction for couples would be increased from 10.0 percent to 13.5 percent, increasing savings by $24.1 million. Finally, the Governor's Budget assumed federal funding for the SSP portion of the grant for 36 month refugees. The May Revision no longer projects the receipt of these federal funds ($15.5 million).

In-Home Supportive Services (IHSS)

In-Home Supportive Services (IHSS) expenditures are $20.2 million below the level reflected in the Governor's Budget. This decrease is caused by slower caseload growth and an increase in the percentage of the IHSS caseload which is eligible for the Personal Care Services Program (PCSP). Whereas the Governor's Budget projected caseload growth of 6.0 percent, caseload is now projected to grow by 3.5 percent. In addition, the Governor's Budget estimated that 60 percent of IHSS recipients would be eligible for the PCSP. It is now estimated that 62 percent of IHSS recipients will be eligible.

State and Local Government Partnership Program

The Governor's Budget includes two major Partnership proposals encompassing: 1) AFDC, and 2) Foster Care, Adoptions Assistance, Emergency Assistance, Child Welfare Services, and

county adoptions and child abuse prevention programs. Because of caseload and policy changes, the total amount of General Fund to be realigned is reduced by $49.0 million in the May Revision. This consists of a reduction in AFDC realignment of $65.2 million, and an increase in children's services realignment of $16.2 million. Additionally, the amount of sales tax to be transferred to counties to administer children's programs is increased to $726 million as a result of the cost increases described in the respective programs.

Disaster Relief

Individual and Family Grant Program

The May estimate reflects a combined increase of $33.8 million for the costs of providing disaster assistance to victims of the Northridge Earthquake and the Winter Floods of 1995 through the Individual and Family Grant Program and the State Supplemental Assistance Program. Approximately $19.0 million will be funded through a reappropriation of the unspent balance of General Fund moneys budgeted for Disaster Relief Program in 1993-94. The unspent balance resulted from the receipt of a federal loan. The balance of the Disaster Relief costs ($14.8 million) will be funded from a General Fund augmentation.

Un Funded Federal Mandates

1994-95 No change
1995-96 -$250.0 million

In January, the proposed budget plan for 1995-96 was predicated, in part, on the Federal Government enacting comprehensive reform of federal immigration policy and reimbursing California for federally mandated costs in providing services to illegal immigrants. The Federal Government has taken some modest steps in addressing immigration policy and has proposed a nominal sum to reimburse states for a portion of costs incurred in providing emergency health care services to illegal immigrants. California's share is estimated to be $105 million.

Even with these funds, however, because the Federal Government has failed to accept its full responsibility for funding federally mandated services to illegal immigrants, California must once again reduce services to legal residents of California. Consequently, the May Revision proposes approximately $275 million in additional General Fund reductions as follows:

- SSP grant levels ($165 million net;)
- Welfare programs ($73 million net;)
- CalREACH Initiative ($23.5 million;)
- Hospital contract costs ($11 million;)
- Job Agent program ($1.0 million;)
- Employment Development Department automation projects ($2 million.)

K-12 Education

Proposition 98 Guarantee

1994-95 $14.6 million
1995-96 $431.1 million

When the Governor's Budget was presented in January, Proposition 98 appropriations in the current year were estimated to be increased by $520 million over the 1994 Budget Act to meet the revised minimum guarantee. Appropriations counting toward the guarantee included a $135 million loan repayment as provided by Chapter 66, Statutes of 1993. These funds were treated as a "set-aside" rather than an appropriation due to legal issues pending in the Court of Appeal. Excluding the loan repayment set-aside, funding per pupil was $4,231 in January. A downward revision in Average Daily Attendance (ADA) growth in the May Revision was more than offset by a decline in anticipated local property tax revenues, state revenues and state population, where all three factors contribute toward an increased guarantee the overall impact is a General Fund increase of $15 million. The loan repayment set-aside increased by $35 million, for a new total of $170 million.

With data now available from school districts that report only actual attendance with no excused absences pursuant to Chapter 984, Statutes of 1993 , there is a new definition of Proposition 98 ADA. The "new" funding per pupil calculated in compliance with Chapter 984 for the current year is $4,247. Applying the same requirements to 1993-94 ADA for consistency, the $4,247 reflects an increase of $13 per pupil over the prior year.

▼ TABLE K-12-1

PROPOSITION 98
January vs. May Revision
(Dollar in Thousands)

	January Proposal	May Revision	Change
1994-95			
General Fund	$14,885,394	$14,899,965	$14,571
Local Revenue	9,932,194	9,911,759	-20,435
Total Guarantee	**$24,817,588**	**$24,811,724**	**-$5,864**
1995-96			
General Fund	$15,853,854	$16,284,963	$431,109
Local Revenue	10,191,598	10,030,126	-161,472
Total Guarantee	**$26,045,452**	**$26,315,089**	**$269,637**

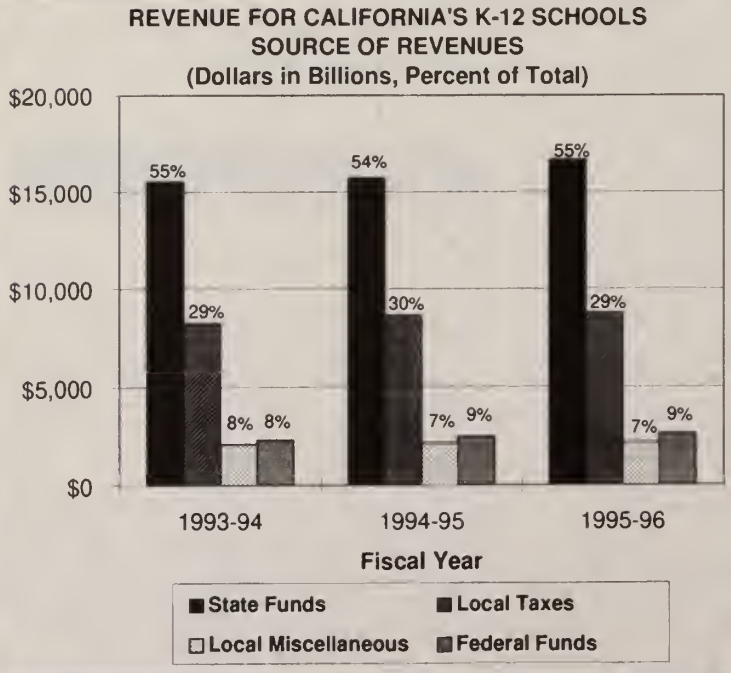
The Governor's Budget proposed a Proposition 98 funding level for 1995-96 that fully satisfied the minimum funding guarantee. Appropriations counting toward the guarantee included a loan repayment set-aside of $379 million. While the growth rate in ADA has changed marginally since the January estimate, due to the downward revision to ADA in both the current and budget years, the guarantee has significantly increased, primarily as a result of the decrease in anticipated local property tax revenues and the decrease in state population estimates. The State share of the 1995-96 Proposition 98 guarantee increased by $431 million. While the loan repayment set-aside has increased to $536 million, the actual General Fund cash increase to K-12 will be $230 million, and will result in per pupil funding of $4,334, or an increase of $87 per pupil over the current year.

K-12 Expenditures

1994-95 $17.8 million
1995-96 $83.5 million

The expenditure changes for K-12 Education primarily reflect satisfying the Proposition 98 guarantee for the current and budget years, and providing general purpose funding based on factors pursuant to the 1994-95 education trailer bill.

▼ FIGURE K-12-A



Current Year

School district and county office of education revenue limit continuous appropriations saw an overall decline of $15.9 million since the Governor's Budget. The decline in school district ADA offsets a downward revision to local property tax revenue estimates.

The Governor's Budget proposed to fund, an anticipated $9.4 million current year special education deficiency. The May Revision proposes to fund the revised estimated deficiency of $13.9 million.

The Governor's Budget proposed one-time funding, through anticipated trailer bill legislation, of $152.7 million for various programs to satisfy the revised minimum guarantee. The May Revision includes a reduction of $5.2 million to this settle-up amount, where significant changes include decreasing Educational Technology by $15 million, Instructional Materials by $0.4 million and Deferred Maintenance by $0.4 million, and increasing the amounts for the Special Education deficiency by $3.8 million, the Desegregation program deficiency by $4.4 million,and the impound account expenditures for *Long Beach* by $2.4 million (see discussion on next page.) Of the original $25 million for Educational Technology, $10 million remains for a new education technology initiative for grants to schools to acquire an estimated 50,000 donated computers refurbished by a community college, regional occupational center/program, or an institution of the Youth and Adult Corrections Agency.

Budget Year

ADA estimates were revised downward since January. However, the local property tax estimate also has been revised downward, and the net impact for district apportionments is $79 million to the General Fund. County office of education apportionments decreased by $2.6 million due to a decline in estimated ADA.

The Governor's Budget included $444.2 million to fund a 2.21-percent cost-of-living adjustment (COLA) for Special Education and school district and county office of education

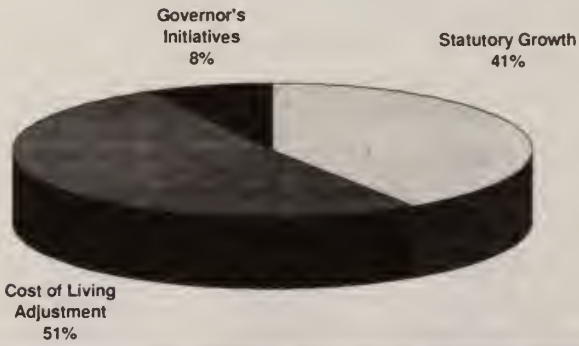
revenue limit apportionments. The statutory COLA rate has been revised to 2.73 percent and the May Revision proposes to fully fund that rate, providing an additional $100.6 million for a total COLA of $544.8 million for apportionments and Special Education.

The Governor's Budget proposed an augmentation of $7 million to establish a revised statewide assessment program Of this amount, $6 million was to be used for incentive funding in three grade levels for districts to provide valid, reliable, and comparable individual student scores. The May Revision proposes to increase the amount for individual testing by $19 million. A total of $25 million would thereby be available to fund a program for all grade levels by providing a $5-per-pupil incentive payment for districts that choose to administer publishers' exams and provide individual student scores to parents and teachers.

The Governor's Budget included a set-aside in 1994-95 of $30 million within the Proposition 98 guarantee to pay a potential settlement in the voluntary desegregation case of *Long Beach Unified School District v. The State of California.* The $30 million represented an amount already appropriated to a court-ordered impound account. This case was settled on March 31, 1995 for an amount of $63.7 million. Approximately one-half of the amount, $32.4 million, was paid in April from the total then available in the impound account. This represents a $2.4 million increase over the $30 million budgeted for the current year in the January budget. The unpaid balance of $31.3 million is proposed to be paid from the 1995 Budget Act.

▼ FIGURE K-12-B

K-12 EXPENDITURES
WHAT THE INCREASE BUYS IN 1995-96



For Special Education, formula-driven changes precipitate a net General Fund increase of $7.1 million resulting from a decrease of $3.7 million due to property tax re-estimates, a decrease of $4.2 million in revenue limit funding generated by Special Day Class (SDC) pupils, and a decrease of $70,000 in federal funding available to offset state costs. Offsetting these factors is a reduction in General Fund needed for the program of $893,000 due the most recent projection for growth in Average Daily Attendance (ADA).

Excluding the one-time 1994-95 Proposition 98 settle-up appropriations, proposed allocations for 1995-96 would provide an increase to K-12 of approximately $1.1 billion over the current year. The statutory cost-of-living adjustment of $545 million accounts for 51 percent of the increase. The Governor's proposed initiatives totaling $80 million account for 8 percent of the change, while statutory growth for pupil attendance requires $430 million, or the remaining 41 percent.

Higher Education

University of California

1994-95 -$0.5 million
1995-96 -$2.5 million

Current year expenditures for lease revenue bond repayments are decreased by $0.5 million, due to a revised payment schedule and a reduction in administrative costs. Budget year expenditures for annuitant health benefits are being decreased by $2.4 million to correspond to the decrease in rates for civil service annuitants. There is an additional decrease of $33,000 for lease revenue bond repayments.

The total funding for the University of California is consistent with the four-year higher education compact proposed by the Governor in January.

California State University

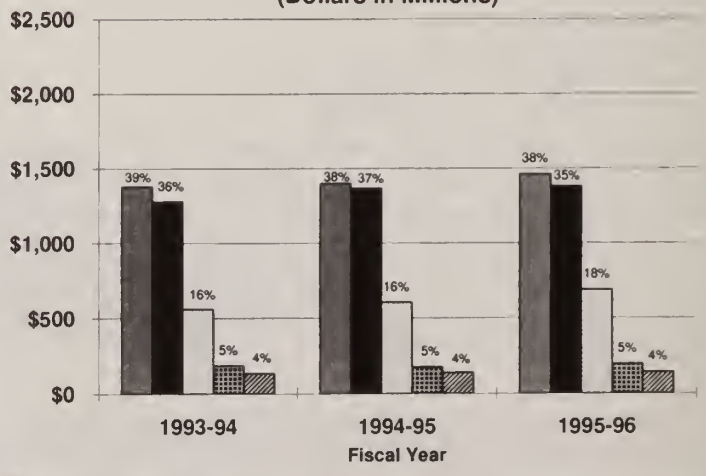
1994-95 -$0.7 million
1995-96 -$1.6 million

Current year expenditures for lease revenue bond repayments are decreased by $0.7 million, mostly due to a revised payment schedule. Budget year expenditures for lease revenue bond repayments are decreased by $3.5 million, partly due to the increase in current year savings, but mostly due to a revised payment schedule. Budget year expenditures are also increased by $1.9 million to begin repayment of $17 million for deferred maintenance projects to be financed through a third party. The net change is a decrease of $1.6 million.

The total funding for California State University is consistent with the four-year higher education compact proposed by the Governor in January.

▼ FIGURE HIED-A

REVENUE FOR COMMUNITY COLLEGES
SOURCE OF REVENUES
(Dollars in Millions)



California Community Colleges

1994-95 $0.2 million
1995-96 $43.6 million

For 1994-95, General Fund expenditures for the California Community Colleges (CCC's) are proposed to be increased by $186,000 to reflect a revised estimate of the current year property tax shortfall which the Administration has proposed to backfill.

For 1995-96, General Fund expenditures are proposed to be increased by $43.6 million over Governor's Budget estimates.

The increase is due to a combination of changes, including the following: an increase of $21.4 million to reflect a full statutory COLA of 3.07 percent (the Governor's Budget proposed a partial COLA of 2.2 percent); an increase of $4.5 million to reflect a revision to the estimate of the rate of change in the state's adult population from .99 percent to 1.17 percent; and, an increase of $17.6 million to reflect the estimated net changes in property tax and other revenue.

Overall revenues for Community Colleges are estimated at $3.9 billion from all fund sources in 1995-96, a $210 million increase over the estimate for 1994-95 (5.7 percent). Significantly, funds from all state sources increase $109 million over the current year level and comprise over 38 percent of total community college revenues. Total funding increases allow a $202 increase per full-time equivalent student (FTES). (Refer to Figure HIED-A for a summary of the major sources of revenue).

Student Aid Commission

1994-95 No change
1995-96 $2.9 million

Budget year expenditures for support are increased by $2.9 million. These funds are required to redistribute the cost allocation within various units that administer both the Cal Grant program and the Federal Family Educational Loan program.

Department of Corrections

Population Adjustments

1994-95 -$28.0 million
1995-96 -$53.4 million

The Governor's Budget anticipated a June 30, 1995 prison inmate population of 132,443. The May Revision anticipates a year-end population of 128,553 or 3,890 fewer inmates than budgeted. State operations costs are estimated to decrease by $29.7 million General Fund in the Institutions Program. These savings will be partially offset by an increase of 2,185 parolees by June 30, 1995 for a total of 93,453 rather than the 91,268 previously anticipated in the Governor's Budget. This will result in an increased cost of $1.7 million. The net effect of these changes is an estimated savings of $28.0 million General Fund.

The Governor's Budget estimated a June 30, 1996 prison inmate population of 148,599. The May Revision projects this year-end population to decline by 6,048 inmates to 142,551. The cost of the Institutions Program is estimated to decrease by $49.7 million General Fund. The May Revision also projects a year-end parolees population of 94,162 or 752 more parolees than the 93,410 anticipated in the Governor's Budget. This represents a cost of $11.7 million in the Paroles Program. These population adjustments have been further offset by savings of $15.4 million General Fund related to a reduced price adjustment, lease payment costs, and other program expenses for a net savings of $53.4 million General Fund.

The above noted population levels represent a 3 percent increase in the year-end institution population for the current year and a 10.9-percent increase for the budget year. They also represent a 3-percent growth in the year-end paroles population for the current year and a 0.8-percent increase in the budget year. The institution population changes are less than previously anticipated, and appear to be primarily due to delays in the prosecution of individuals subject to the "Three Strikes and You're Out" law.

Madrid Lawsuit

1994-95 No change
1995-96 $1.2 million

In response to a United States District Court finding in the *Madrid vs. Gomez* lawsuit, the court has directed the department to address various issues regarding state prison policies and procedures. The May Revision proposes $1.2 million General Fund for budget year costs to implement changes to institution practices in the areas of use of force, investigation procedures, discipline and segregation of gang affiliates.

Gates vs. Deukmejian

1994-95 No change
1995-96 $1.0 million

In order to comply with the Gates Consent Decree, additional funding of $1,000,000 is proposed. The additional funds will be for 22.5 correctional officers and 10.0 office assistant positions. The additional custody staff will facilitate greater inmate participation in treatment programs without compromising the safety of staff or inmates, and the additional office assistants will allow increased confidentiality of record keeping.

Department of the Youth Authority

1994-95 $1.8 million
1995-96 $6.4 million

Population Adjustments

The May Revision estimate of June 30, 1995 institutions population is 9,875, which is 514 wards more than anticipated in the Governor's Budget, resulting in additional costs of $2,021,000 ($1,253,000 General Fund and $768,000 Proposition 98-General Fund). The June 30, 1995 parole population is estimated to be 6,040, or 66 fewer cases than the 6,106 included in the Governor's Budget, resulting in General Fund savings of $265,000, General Fund. The net effect of these changes will be increased General Fund expenditures of $1,756,000.

The June 30, 1996 institution population is projected to be 10,420, which is 569 wards more than anticipated in the Governor's Budget. This population increase results in additional costs of $6,855,000 ($4,642,000 General Fund and $2,213,000 Proposition 98-General Fund). These costs include funding for the re-activation of the Nevada Housing Unit in the Northern California Youth Center Complex and additional funding of $561,000 for an expected increase of 191 wards needing special education services. These costs are partially offset by a reduction of $417,000 because of a decrease in parole cases from the Governor's Budget estimate of 6,416 parolees at June 30, 1996 to 6,335, a reduction of 81 cases. The net impact of these changes is an increase of $6,438,000.

Department of Justice

Violence Suppression Program

1994-95 No change
1995-96 $0.2 million

The 1995-96 Governor's Budget included $2,974,000 from the General Fund in order to administer the Violence Suppression Program within the Department of Justice. This program is designed to investigate and apprehend violent criminals who use weapons, firearms, or explosives in the commission of crimes.

The May Revision proposes an additional $206,000 from the General Fund and $1,600,000 in federal funds received from the Office of Criminal Justice Planning to expand the Violence Suppression Program, which will allow the department to intensify its efforts to reduce crime and take dangerous criminals off the streets.

Department of Fair Employment and Housing

Employment Discrimination Complaints

1994-95 No change
1995-96 $2.5 million

The Department of Fair Employment and Housing is responsible for reviewing and investigating employment discrimination complaints submitted by the public and for filing an accusation when appropriate. The proposed $2.5 million will enable the Department to process all cases within the statutorily required one-year period, thereby ensuring that the public is adequately protected in cases of potential employment discrimination.

Department of Veterans Affairs

Barstow Veterans Home

1994-95 No change
1995-96 $11.3 million

Construction of the Barstow Veterans Home is scheduled for completion in December 1995, and admittance will begin in January 1996. The facility will house 260 veterans in 1995-96, and will ultimately accommodate 400 veterans in residential living, intermediate care, and skilled nursing care. Nursing and medical staff will be on site, and the home will additionally provide veterans with a full complement of medical services. The General Fund request of $11.3 million is in addition to $616,000 in federal funds and $895,000 in reimbursements.

California Department of Forestry and Fire Protection

Emergency Fire Suppression

1994-95 $10.0 million
1995-96 No change

For the current year, the California Department of Forestry and Fire Protection (CDF) projects its emergency fire suppression costs to total $76 million. Of that amount, $56 million (General Fund) is already provided in the Governor's Budget, and $10 million will be funded from federal funds. The remaining $10 million from the General Fund is proposed from the current year deficiency bill.

Board of Control

Victims of Crime Program—Penalty Assessment Fund

1994-95 No change
1995-96 $7.0 million

The May Revision revenue estimates show that the current year and budget year revenues from the Penalty Assessment

Fund to the Restitution Fund for support of the Board of Control's Victims of Crimes Program are approximately 3.1 percent and 3.4 percent (respectively) less than amounts projected in the Governor's Budget. In order to offset this decline in revenues, and to ensure that sufficient resources are available for the Victims of Crime Program for the payment of approved claims, $7.0 million is proposed as a transfer from the General Fund to the Restitution Fund in the budget year.

Governor's Office of Technology

1994-95 No change
1995-96 $0.8 million

By Executive Order, the Governor has created a new Office of Technology and will be proposing legislation to statutorily establish the office effective January 1, 1996. The total budget for the new office is $2,520,000, which will provide funding for 15 positions and related operating costs. These costs will be funded equally between the General Fund ($840,000) and reimbursements from the Health and Welfare Data Center ($840,000) and the Teale Data Center ($840,000).

Department of Finance

Office of Information Technology

1994-95 No change
1995-96 -$0.6 million

Consistently the Governor's Executive Order, the Administration proposes to eliminate the Office of Information Technology and its 17 authorized positions (15.3 PYs) and $2,012,000 ($1,932,000 GF). The Administration also proposes to establish 10 positions (9.0 PYs and $1,375,000) within the Department of Finance to ensure that proposed technology projects are based upon sound financial plans before project funding is proposed in the Governor's Budget.

Commission on State Mandates
Chapter 72, Statutes of 1993 (SB 1033)

1994-95 $0.1 million
1995-96 $2.9 million

Chapter 72 authorizes a county to reduce its general assistance program below state-required levels if it can make a compelling case to the Commission that basic county services cannot be maintained unless the program is reduced. The Commission's approval of a county's application to implement such a reduction must be done annually. The Commission anticipates the receipt of 29 applications pursuant to Chapter 72 on an annual basis and, therefore, is proposing $1.7 million to fund additional personnel and operating expenses and $1.2 million for contract services to address the workload associated with processing these applications in 1995-96. In addition, a current year deficiency in the amount of $144,000 was authorized to provide funding for the 1994-95 costs of one application already processed, and other applications expected to be received shortly.

If the legislature enacts mandate relief measures for general assistance, these expenditures would not be required.

Statewide Issues

Reduction in State Operations Funding

1994-95 No change
1995-96 -$35.1 million

To ensure that adequate funding is available for the Local Government Partnership Program, a $35.1 million reduction in General Fund state operations expenditures is proposed. This reduction will not apply to the Senate, Assembly, Judicial, Board of Equalization, Franchise Tax Board, the Employment Development Department, or to the University of California and the California State Universities.

Elimination of General Salary Increase Funding for Non-General Fund Departments

1994-95 No change
1995-96 No change

Included in the May Revision is the rescission of non-General Fund appropriations to fund the three-percent general salary increase effective January 1, 1995. The funding rescission will be implemented with the authority proposed in Control Section 3.95 of the Budget Bill.

General Obligation Bond Debt Service

1994-95 -$3.8 million
1995-96 -$32.5 million

The proposed 1995-96 Governor's Budget anticipated current year General Obligation bond debt service expenditures of approximately $1.883 billion and budget year expenditures of approximately $1.995 billion.

Due to a revision in the State Treasurer's Sales Plan, current year expenditures are estimated to decrease by $3.8 million and budget year expenditures are estimated to decrease by $32.5 million. The total savings over the two years is estimated to be $36.3 million.

Payment of Interest on General Fund Loans

1994-95 -$102.9 million
1995-96 -$165.0 million

Payment of Interest on General Fund Loans is comprised of a Budget Act appropriation for the payment of interest on internal borrowing and a continuous appropriation pursuant to Government Code Section 17310, for the payment of interest on external borrowing.

The 1994 Budget Act includes a 22-month Deficit Retirement Plan which called for the issuance of $7 billion in short-term debt. As a result, the General Fund's reliance on internal borrowing is greatly reduced. Therefore, the interest payable on internal borrowing is estimated to decrease by $74 million in 1994-95.

General Fund external debt service payments are estimated to decrease by $28.9 million in the 1994-95 fiscal year.

Additionally, budget year external borrowing costs are estimated to decrease by $165 million as a result of an improved cash position which allows a delay in the issuance of Revenue Anticipation Notes (RANs) in the 1995 fiscal year.

In total, there is a two-year General Fund savings of $267.9 million for interest costs on General Fund loans.

Annuitant Health Benefit Program

1994-95 No change
1995-96 -$19.8 million

For the budget year, expenditures for annuitant health benefits are estimated to decrease by $19.8 million below projections in the Governor's Budget as a result of reductions in the cost of health insurance premiums.

Employer Retirement Surplus Asset Savings

1994-95 No change
1995-96 -$42.5 million

For the budget year, the Public Employees' Retirement System (PERS) has estimated an increase of $42.5 million above the January estimate in available State retirement surplus asset funds that can be applied to reduce the State's retirement payments to PERS. This latest State PERS surplus asset estimate will result in a $63.5 million reduction to the $466.5 million annual General Fund payment to PERS due on July 1, 1995.

In January, the Administration proposed a fundamental change in the partnership between the state and local government, primarily counties. The Administration remains committed to the premise that it is essential to restructure our partnership in order to promote local control and responsibility and achieve the best possible program outcomes. Based on our discussions with the Legislature and counties, the Administration is proposing some modifications to the Partnership Proposal in the May Revision.

A Partnership for Family and Children's Services

In January, the Governor's Budget proposed to transfer $710 million of the existing state sales tax to a Children's Services subaccount within the existing Realignment framework. Counties would become responsible for 100 percent of the non-federal share of cost for the Child Welfare, Foster Care and Adoptions programs. Counties would have greater flexibility and decision-making authority in the budgeting and use of these monies.

This proposal remains unchanged with the exception of an update for caseload changes which results in an amount of $726 million being transferred. The Administration remains committed to ensuring that counties have the flexibility necessary to administer these programs in concert with local community priorities.

Trial Court/AFDC Alignment

The second component of the Partnership proposal is the State assuming 70 percent of trial court costs with the counties assuming 50 percent of AFDC costs. Counties would also retain all fine and penalty revenues collected.

This program achieves two important policy objectives: first, the promotion of uniform administration of justice throughout the 58 counties and second, fostering an increased emphasis on local employment activities in order to assist people in moving from dependency to self-sufficiency.

This proposal resulted in a $241 million cost to counties. Based on caseload factors as well as additional policy proposals

contained in the May Revision, the cost to counties for the same proposal would be $228 million. The estimate for fine and penalty revenue has decreased from $311 million to $299 million. The cost of assumption of AFDC grants is $1.092 billion, while the state cost for assumption of 70 percent of Trial Court funding is $605 million.

One of the primary concerns about the January proposal was the funding reduction to counties. The Administration is responding to this concern in three ways. First, the Administration believes that no county should initially make a profit on this exchange while other counties may be disproportionately affected. Second, the Administration believes it is important to provide additional resources for this exchange in order to mitigate the cost to counties. Third, the administration proposes aggressive mandate relief and other program changes to ensure that county costs are offset in total.

Therefore, the Administration has made reductions in General Fund state operations and the reserve balance in order to set aside $115 million in stabilization funding. This will reduce the net cost to counties to $75 million and ensure that every county will receive sufficient resources from the fine and penalty revenue and state funding for Trial Court costs to meet 93 percent of the costs of assuming the higher share of AFDC grant costs.

Other proposals, such as the allocation of SLIAG funds, increased federal Family Preservation funds, and the reduction in costs of State Hospital beds contained in the Budget will positively affect counties.

In addition, the Administration continues to believe that the net cost to counties can be further diminished by aggressive action in General Assistance and Proposition 99 maintenance of effort mandate relief. In January, the Administration committed to repeal, simplify or amend unnecessary and/or obsolete mandates. The Administration believes the best way to proceed is to have the Legislature convene a working group to address this issue as part of budget deliberations.

While the Administration is open to discussing other local government initiatives. For instance, public safety proposals which have surfaced in the Legislature offer an opportunity to discuss some important policy and fiscal issues facing the state and counties in the criminal justice area. Others may offer alternatives or variations to both proposals. The Administration

believes that an open discussion of the state-local partnership offers an opportunity to promote increased local control and responsibility and the achievement of better program results.

Property Tax

In January, the estimate of local property tax growth was 1.3 percent for 1994-95 and 3.0 percent for 1995-96. Based on a survey of local assessors, we are revising the 1995-96 estimate of growth to 2.0 percent.

Several factors appear to be influencing this downward trend. Many counties still face a backlog in assessment appeals. Appeals not only result in a downward assessment of property values, but also mean that counties may not have sufficient time and resources to appropriately maintain the property tax roll. Increases in the roll depend on counties being able to value new construction and changes in ownership. The resale market as well as new construction appear to be slower than assessors anticipated in the fall. Counties also appear to be facing a flatter market and additional downward assessments.

Property Tax Administration

Because of a continuing concern about the potential degradation of the property tax roll, the Administration is interested in pursuing a proposal that would give counties additional resources for property tax administration. The Administration will pursue with counties and the Legislature a funding proposal which would meet specified criteria. Any final proposal must enhance the collection of property tax revenue above current projections. This means that resources provided by the State must be used to supplement—not supplant—existing efforts to obtain real growth in property tax collection. State resources would be provided through a "loan" to counties as a local option contract.

This proposal should be considered as an essential component of any state local government partnership proposal.

Federal Funds for Immigration

In January, the Budget reflected the continued call by the Governor for the federal government to accept full financial responsibility for the cost of illegal immigration and refugees. For illegal immigrants, who enter this country due to the lack of enforcement activities by the federal government, the Governor's Budget included $732 million in federal reinbursments for mandated services. Of this, $422 million was identified for incarceration costs and $310 million for emergency and pregnancy related health care to illegal immigrants. For refugees who enter this country by a legal process and are guaranteed public assistance and health care by the federal government, the budget reflected federal payment for the first 36 months of their costs at $103 million, as authorized by federal law.

Since January, the Wilson Administration has been working with members of the Clinton Administration and the Congress on this additional funding for California. As part of the May Revision, the 1995-96 estimate of federal funds has been adjusted to reflect caseload changes and the most recent actions at the federal level. In the area of federal payment for incarceration of illegal immigrants, the House Crime Bill has included $650 million nationally for federal fiscal year (FFY) 1996 costs. When California's share of the FFY 95 appropriation and the FFY 96 appropriation are combined, California is estimated to receive $413 million during our state fiscal year. This funding level is consistent with caseload changes reflected in the May Revision.

In the area of health care, the May Revision assumes that Congress will approve the President's request for $150 million for health care costs to illegal immigrants. California's costs for 1995-96 are projected to be $286 million; however, under the President's proposal, only $105 million would be received in the state fiscal year. This leaves an unfunded mandate of $181million on California taxpayers.

In the area of refugee funding, the May Revision projects costs for health care and cash grant payments to refugees of $94 million in 1995-96. However, the President's budget does not include appropriations sufficient to cover federal authorization to pay for the first 36 months of refugees costs for state pro-

grams, and there are no changes to this funding level before Congress at this time. Therefore, the May Revision does not assume any additional refugee funds during the 1995-96 fiscal year; consequently, $94 million of state General Fund will now be necessary to pay for these federally mandated costs.

Additional reductions of $275 million in cash grant programs for poor women and children and aged, blind and disabled adults and delays in provision of health care to poor children are proposed in order to pay for the remaining mandated immigration costs that the federal government has failed to fund.

No External Borrowing on June 30, 1996

One consequence of the economic recession faced by California in the early 1990's was an increased reliance upon the nation's financial markets to provide the State with the short-term resources necessary to manage the normal monthly cashflow imbalances within any given fiscal year.

As a result, the amount of short-term debt issued to meet these imbalances soared from approximately $4.1 billion issued in the 1990-91 fiscal year, to $7 billion issued in the 1994-95 fiscal year.

However, due to the State's continued recovery, the Governor's continued insistence that the federal government recognize its financial responsibility for unfunded mandates, and the Governor's Commitment to control the growth of spending on entitlement programs, the State's reliance upon the financial markets will *decrease* beginning in the 1995-96 fiscal year.

The cashflows in the January Governor's Budget reflect a need for $2 billion in Revenue Anticipation Notes (RANs) in October 1995. Based upon the May Revision's improved cashflow, the RANs are now anticipated to be issued in April 1996. Furthermore, these RANS will be redeemed by June 30, 1996, and will be the lowest amount issued in the last six years.

As a result, for the first time in five years, the State will end Fiscal Year 1995-96 with no external borrowing.

"Trigger Legislation"

Based upon the May Revision cash flows for the 1995-96 fiscal year, the State will have a year-end cash balance of $1.8 billion, meaning that the "Trigger" legislation involving across-the-board expenditures will not be required.

State Appropriations Limit Calculation — 1995-96

Pursuant to Article XIIIB of the California Constitution, the 1995-96 State Appropriations Limit (SAL) is estimated to be $39.436 billion. The revised limit is the result of applying a growth factor of 5.09 percent and a technical limit adjustment of $28 million. The 1995-96 limit is 5.01 percent greater than the Limit in 1994-95 and $34 million higher than the $39.402 billion estimated for 1995-96 in January. This increase is due to changes in the following factors:

	January	May Revision
▲ Per Capita Personal Income	2.90%	3.36%
▲ State Civilian Population	1.75%	1.31%
▲ K-14 Average Daily Attendance	2.34%	2.33%

The SAL for 1994-95 does not change since it was statutorily determined by Section 12.00 of the Budget Act.

The proposed 1995-96 appropriations subject to limitation are more than $7 billion dollars under the Limit.

GENERAL FUND
Revenues and Expenditures
(Dollars in Billions)

	Revenues	Expenditures
1991-92	$42.0	$43.3
1992-93	$40.9	$40.9
1993-94	$40.0	$39.0
1994-95	$42.1	$41.5
1995-96	$42.7	$41.8

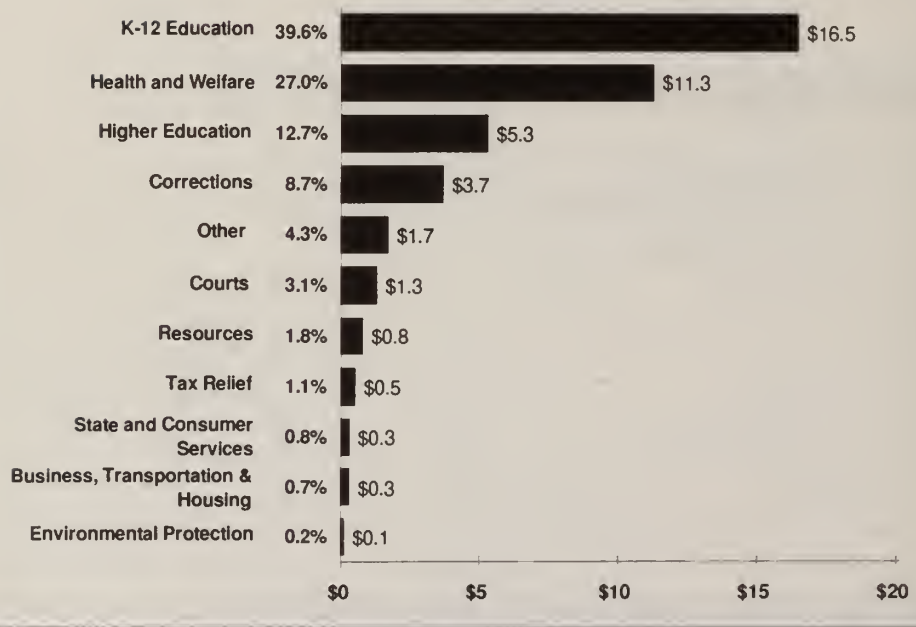
GENERAL FUND
Budget Summary
(Dollars in Millions)

	Revised 1994-95	Proposed 1995-96
Prior Year Balance	$32	$459
Revenues and Transfers	**42,143**	**42,685**
Deficit Elimination Plan	1,025	
Loan Repayments	-1,200	-1,025
Total Resources Available	$42,000	$42,119
Expenditures	**41,541**	**41,800**
Fund Balance	$459	$319
Budget Reserves:		
Special Fund for Economic Uncertainties	**$177**	**$58**
Reserve for Liquidation of Encumbrances	230	230
Reserve for Proposition 98	52	31

GENERAL FUND EXPENDITURES
By Agency
(Dollars in Millions)

	1994-95	1995-96
Legislative, Judicial, Executive	$1,328	$2,004
State and Consumer Services	327	350
Business, Transportation & Housing	257	276
Trade and Commerce	36	44
Resources	779	756
Environmental	80	80
Health and Welfare	13,972	11,303
Youth and Adult Correctional	3,639	3,654
K-12 Education	15,267	16,553
Higher Education	5,102	5,311
General Government	888	993
Statewide	-134	476
Total -- All General Fund	**$41,541**	**$41,800**
January Totals	$41,693	$41,726
Change from January	-$152	$74
% Change from January	-0.36%	0.18%

GENERAL FUND EXPENDITURES 1995-96
(Dollars in Billions)



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Budget Program Areas

Budget Planning and Preparation, Cash Management, Statewide Issues	Carl Rogers	445-5332
Education	Kathryn Radtkey-Gaither	445-0328
Health and Welfare	Stan Cubanski	445-6423
Revenue Forecasting, Economic Projections, Population Estimates, Business, Transportation and Housing, Trade and Commerce	Wallis Clark	322-2263
Youth and Adult Correctional, Justice, General Government and State and Consumer Services	Calvin Smith	445-8913
Legislation, Resources, Environmental Protection and Capital Outlay	Fred Klass	324-0043
Employee Relations, Retirement Systems	Robert Straight	445-3274

* Judicial and Local Government

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